



Office of the City Auditor

Travel Expenditures

Report No. 9950

August 24, 2000

A preliminary survey of City travel expenditures found that the City does not have adequate controls over use of City funds for travel-related expenditures. There is limited accountability and there are limited means of monitoring expenditures. Financial Services is in the process of establishing policies and procedures that will address these issues.

CITY COUNCIL

Mayor
Mary Manross

Council
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Ned O'Hearn
David Ortega
Robert Pettycrew
Tom Silverman
George Zraket

August 24, 2000

To the Most Honorable Mary Manross, Mayor
and the Members of the Scottsdale City Council

Transmitted herewith is the report of our evaluation of internal controls related to City of Scottsdale Travel Expenditures, Report No. 9950. This work was initiated as a follow-up to the Purchasing Card Audit.

The Financial Services General Manager and Accounting and Budget Director have read the audit report and concur with the overall findings. City management is revising the Administrative Guideline for expenditures related to travel and has implemented policies and procedures that are more comprehensive. The written management response can be found in Appendix A.

If you need additional information or have any questions, please contact us at 480-312-7756.

Respectfully submitted,

A handwritten signature in cursive script that reads "Cheryl Lee Barcala".

Cheryl Barcala, CIA, CPA, CFE, CGFM, CISA
Scottsdale City Auditor

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EXECUTIVE SUMMARY

This audit was initiated as a follow-up to the Citywide Purchasing Card Audit and was approved by the Mayor and Members of City Council. Preliminary audit work was initiated in March 2000 and concluded in April 2000. Stella Fusaro, Auditor-in-Charge, Gail Crawford, and Michael Spletter performed the work. Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing as required by Article III, Scottsdale Revised Code §2-117 *et seq.*

The objective of the audit was to evaluate internal controls over City travel expenditures to determine if sufficient safeguards are in place to limit the City's risk of unauthorized or inappropriate travel expenditures. To make this determination we evaluated:

- Policies and procedures to determine whether or not they are sufficient to provide adequate controls.
- A sample of requisitions and reconciliations to determine if they were supported with adequate documentation.
- Samples of travel expenses to determine if they complied with City Guidelines.

Based on preliminary survey work, we abandoned plans for compliance testing. During the preliminary survey, we determined:

- Expenditures are not recorded and documented in a fashion that would allow us to determine a true population of travel-related expenditures without a significant commitment of time and resources.
- Policies and procedures are not sufficiently developed to allow a determination regarding the appropriateness of the expenditure.
- Records are not maintained in a manner that would facilitate reconciliation of all expenses related to a particular trip.

Results in Brief

We found that the City needs to improve controls over travel-related expenditures in order to have an accountable plan that meets Internal Revenue Service (IRS) requirements. Currently, the City does not have documented policy direction that would serve to set the boundary for appropriate, business-related travel.

Management policies and procedures need to be more detailed in order to provide guidance regarding reasonable travel expenses and miscellaneous expenses that will be reimbursed. Better guidance also is needed to ensure appropriate

accounting for personal expenses as well as those related to guests traveling with the employee.

Additional accountability needs to be implemented to ensure that all advances and reimbursements are appropriately substantiated as required by the IRS. Pre-travel authorization requirements need to be clarified and procedures need to be implemented to ensure that final expense reconciliations are submitted.

In order to provide better monitoring of expenses, separate accounts need to be created to avoid commingling of expenses related to out-of-town travel expenses with those for local meetings, business luncheons, and award ceremonies as well as other operational expenditures made with City Procurement Cards.

Travel arrangements are made at the discretion of the department or a specific employee and the City has not established relationships with travel agencies, vehicle rental agencies, or off-site parking vendors to ensure that the City receives the benefit of discounted rates. Currently, there is no restriction on using a travel agent that an employee may have a personal relationship with which may be perceived as a conflict of interest. Also, there are no restrictions on using specific airlines or vehicle rental agencies as a means of increasing frequent flyer miles earned by the employee when there are alternatives to travel or less expensive arrangements through another service provider.

Financial Services has reviewed this report and is in the process of establishing policies and procedures for travel that will address these deficiencies. On June 16, 2000, Accounts Payable staff sent notice to Departments that the online Travel Requisition/Reconciliation Form would be the only accepted means of submitting requests for travel-related expenditures. Since its introduction last year, they have provided informal one-on-one training on use of the online Form. Accounts Payable staff have been instructed to return travel arrangements requested on Check Requisitions.

The Action Plan on the following page details our recommendations to enhance controls and accountability for travel-related expenses, and management's response.

Action Plan

| No. | Management Response | | Implementation Status | | RECOMMENDATIONS |
|-----|---------------------|----------|-----------------------|---------|---|
| | AGREE | DISAGREE | UNDERWAY | PLANNED | |
| 1 | X | | X | | <p>The City Council should direct City Management to:</p> <p>Develop a comprehensive travel policy that outlines management expectation that travel-related expenditures be reasonable, prudent, and controlled in an appropriate manner. This policy should:</p> <ul style="list-style-type: none"> ➤ Address who can travel, what circumstances would be generally considered appropriate, allowable expenditures, required documentation, and justification for expenses such as extended stays and rental of vehicles. ➤ Require adequate reconciliation of expenses and require employees to repay any additional costs incurred as a result of guests who accompany them. ➤ Include a statement that any advance or reimbursement that is not adequately substantiated will be treated as additional compensation. |
| 2 | X | | X | | <p>Establish comprehensive management policies and procedures outlining each employee's responsibility for following City policy regarding travel-related expenses. The procedures, at a minimum, should:</p> <p>Define expectations for those who travel including:</p> <ul style="list-style-type: none"> ➤ An appropriate distance that must be met to justify overnight lodging and payment of expenses related to meals. ➤ Criteria for lodging expenses such as requiring use of accommodations that offer government rates. ➤ When it is appropriate to incur other expenses such as dry cleaning/laundry and long distance telephone calls and limits for those expenses. ➤ Clear expectations that contract employees and board and commission members follow established City procedures when traveling on City business. ➤ Who owns frequent flyer miles and preclude decisions based on availability of frequent flier miles alone. ➤ Requirements that decisions be based on the best value for the City or what is most appropriate under the situation. ➤ What the per diem allowance covers. |
| A | | | | | |

| No. | Management Response | | Implementation Status | | RECOMMENDATIONS |
|-----|---------------------|----------|-----------------------|---------|--|
| | AGREE | DISAGREE | UNDERWAY | PLANNED | |
| B | | | | | <ul style="list-style-type: none"> ➤ Restrictions on the ability to switch between per diem allowance and actual receipts while on the same trip. ➤ Discussing when it is appropriate for a full-day per diem and situations in which an adjustment should be made. ➤ Use of laptop computers, including responsibility for safeguarding both the computer and any data. ➤ Requiring justification for long distance charges incurred to access Internet Service Providers or the City Network. ➤ Procedures to specifically address expenditures incurred when a non-employee travels with a City employee. ➤ Limits for airport parking to encourage use of park-and-ride facilities that are less expensive. ➤ Customary tipping practices and appropriate limits. ➤ Employee responsibility to return rental vehicles with a full tank of gas to avoid a higher cost for fuel. ➤ Procedures when an employee elects to extend travel arrangements including determining the appropriate break between City and personal costs such as time charged to the City, per diem, and fuel costs. <p>Require adequate preliminary planning to estimate all necessary expenses prior to the actual trip and pre-authorization of any travel-related expenditure by the employee's supervisor. These preliminary costs should be captured on a Travel Requisition Form and should include:</p> <ul style="list-style-type: none"> ➤ Registration costs whether requested for payment directly to the vendor or paid with a Procurement Card. ➤ Adequate documentation of registration forms and agendas. ➤ Lodging accommodations whether requested for payment directly to the vendor or guaranteed with a Procurement Card. ➤ Justification for any vehicle rental proposed as part of the travel-related expenses. ➤ Any per diem advance for meals and other expenses. |

| No. | Management Response | | Implementation Status | | RECOMMENDATIONS |
|-----|---------------------|----------|-----------------------|---------|---|
| | AGREE | DISAGREE | UNDERWAY | PLANNED | |
| C | | | | | <p>Require Departments to maintain documentation with their copy of the Travel Requisition Form that:</p> <ul style="list-style-type: none"> ➤ Flight arrangements were made in the most prudent manner to reduce the cost to the City. ➤ Lodging accommodations were made in the most prudent manner to reduce the cost to the City. |
| D | | | | | <p>Require submission of a Travel Reconciliation Form that can be matched to the Travel Requisition Form for a final accounting of all expenses regardless of whether or not additional funds are owed to the employee or City. The Travel Reconciliation Form should include:</p> <ul style="list-style-type: none"> ➤ An itemized hotel bill indicating all charges. ➤ Itemized receipts for any meals charged to the hotel room, Procurement Card, or submitted for reimbursement. If more than one person's meal is included, the names of any other individuals should be listed on the receipt. ➤ Name and business purpose for any long distance call made and charged to the room, a City Procurement Card, or requested for reimbursement. ➤ Itemized receipt for any vehicle rental. ➤ Receipt from City Cashier for return of any excess funds. |
| 3 | X | | X | | <p>Establish clearly defined, separate control accounts to ensure that City travel expenditures are tracked separately from expenditures for local business meals, conferences, and training. Consideration should also be given to establishing subsidiary accounts for lodging, vehicle rental, other transportation, airfare, registration, and meals.</p> |
| 4 | X | | X | | <p>Require Departments to prepare a Request for Adjustment, at least quarterly, to reclassify expenditures made with Procurement Cards to properly reflect the category of expenditures.</p> |
| 5 | X | | X | | <p>Require periodic reviews of Travel Reconciliation Forms by Financial Services staff to ensure an appropriate level of monitoring.</p> |

| No. | Management Response | | Implementation Status | | RECOMMENDATIONS |
|-----|---------------------|----------|-----------------------|---------|---|
| | AGREE | DISAGREE | UNDERWAY | PLANNED | |
| 6 | X | | X | | Require Financial Services to develop a specialized training on travel-related expenses for departmental administrative support staff, employees who will be traveling, and budget liaisons. |
| 7 | X | | | X | Consider requiring departments to develop department specific procedures to address unique travel requirements of that department. |
| 8 | X | | | X | Consider entering into a Citywide contract with a travel agency for travel arrangements. |
| 9 | X | | | X | Consider establishing a master account with a vehicle rental agency to ensure that the City receives a discounted rate when it is necessary for employees to rent a vehicle. |
| 10 | X | | X | | <p>Require Risk Management to review liability issues that arise from:</p> <ul style="list-style-type: none"> ➤ Allowing guests to accompany an employee when the City pays the cost of the rental vehicle. ➤ Allowing use of a personal vehicle to transport other City employees or guests. ➤ Use of a City rented vehicle by a non-employee while accompanying an employee on out-of-town travel. |

BACKGROUND

When it is necessary for a City employee to travel, the City will reimburse out-of-pocket expenses incurred during the trip. According to the Accounting and Budget Director, it is the City's policy to process travel-related expenditures in a manner as prescribed by the IRS for an accountable plan.

According to IRS Publication 463:

- The expense must have a business connection.
- There must be an adequate accounting of the expenses within a reasonable period of time.
- Any excess reimbursement or allowance must be returned within a reasonable period of time.

Adequate accounting is defined by the IRS as documentary evidence of the travel and other business related expenses, including amounts charged to the City, in the form of a statement, diary, or log in which each expense is recorded at or near the time that the expense is incurred. The documentation must indicate the days of travel, the place, and the business purpose for the travel.

To ease the record keeping requirements, regulations provide that the City may provide a per diem for lodging and/or meals and incidentals. Receipts would not be required as long as the reimbursement request does not exceed the per diem allowance. The per diem allowance must be reasonably calculated and cannot exceed federal per diem rates. It must also be pro-rated for both the day of travel and the day returning.

For fiscal years 1999/00 and 2000/01, the City budgeted approximately \$1.663 million and \$1.699 million respectively for expenditures related to training and business conferences. These funds are used for expenditures related to local functions such as training, business conferences, and business luncheons as well as training, business conferences, and other events that require out-of-town travel. As of May 2000, approximately \$1.1 million had been expended from the 1999/00 budget.

As part of the budget process, departments submit a budget request along with detail account documentation forms that provide a brief description of the proposed training or business conference expenses, justification, and amount requested. According to Financial Services Management, budget staff evaluate the request as a percent of personnel costs and may ask for additional support if it does not look reasonable based on prior year trends. The proposed request is

subject to further review by senior management prior to the proposed budget being submitted to Council. Once the budget is approved, departments have the authority to make the final determination on whether or not the funds are spent on local expenses or those that require out-of-town travel.

Policies and procedures for travel-related expenses are reflected in Administrative Guideline 210, *City Travel Expense*. This Administrative Guideline (AG) was developed in 1994 when the City moved from more restrictive Administrative Regulations. Various departments, including Human Resources, Financial Services, and the Office of the City Auditor assisted in developing the AGs.

The AG instructs departments to make travel arrangements and charge the expenses to either the *Training* or *Business Conference* account. The AG promotes the use of a Travel Requisition Form to pay and document expenses related to lodging accommodations, registration, airfare, and any travel advance, but there is no restriction to using only this Form. Travel-related expenditures can be arranged with a Check Requisition, City Procurement Card, or vendor specific rental vehicle credit cards that can be checked out from Financial Services. Employees can also choose to pay any expenses using personal funds and then submit the cost for reimbursement.

Before traveling, an employee can request an advance for meals and incidentals. The advance is generally limited to the daily per diem, but an employee can request additional funds for items such as ground transportation or in situations where it may reasonably be expected that daily expenses would be more than the allowance. The AG allows a \$25 per diem allowance for meals and incidentals for which an employee does not need to submit receipts. However, should the expenses be more than the allowance, the employee will be reimbursed for any amount supported with a receipt. Travel Reconciliation Forms are normally submitted only if an unused travel advance needs to be returned to the City or if the employee incurred additional expense.

CHAPTER ONE

THE CITY SHOULD STRENGTHEN CONTROLS OVER TRAVEL

Based on our preliminary survey, we concluded that the City needs to strengthen controls over travel-related expenditures. We found:

- Existing policy for travel and travel-related expenditures needs to be updated to provide sufficient guidance to both employees who travel and City staff responsible for processing travel requests.
- Sufficient procedures need to be implemented to ensure compliance with federal guidelines and avoid issues with unsubstantiated or unallowed expenditures.
- Account controls to segregate travel-related expenditures from non-travel related expenditures need to be implemented to facilitate efficient auditing of travel-related expenses.

We believe the conditions discussed above exist for several reasons. First, there is no established responsibility to maintain current policies and procedures and ensure that conflicting guidance is identified and resolved. As well, under the decentralized approach to budgeting, responsibility for compliance is left at the department level. Also, the City's focus on improving efficiency and reducing processing time has placed more of the responsibility for processing payments at the departmental level. Accounts Payable staff have relied on each Departmental manager for a properly signed Travel Requisition Form or final Travel Reconciliation Form that would ensure that all expenses are recorded and properly accounted for.

City Needs to Develop Adequate Policies to Control Use of Funds for Travel

Policy direction serves to set the boundaries and expectations for employees and ensures that expenditures meet federal requirements. A global policy statement also serves to ensure consistent application between different departments or individual employees. When policy is documented and communicated, employees have a clear understanding of what is expected and what is not allowed. Following are examples of different types of policies that could be included:

- Define who can travel at the City's expense:
 - ◆ Full-time City employees.
 - ◆ Board and Commission members.
 - ◆ Contract workers.

- Set restrictions designed to control costs:
 - ◆ In-state versus out-of-state.
 - ◆ Multiple employees traveling to the same conference.
 - ◆ Appropriateness of extended stays and the responsibility for additional costs.
 - ◆ Appropriateness of guests accompanying employees and the responsibility for additional costs.
 - ◆ Appropriateness of renting vehicles versus using other types of transportation.

Basically, a good policy statement provides clear direction for the types of expenses that can be considered appropriate for inclusion in the budget and sets performance criteria that can be used to evaluate expenditures made with those funds.

We found that AG 210 is procedural in nature and does not discuss or define what is allowable travel. Employees are not precluded from traveling for professional development purposes when alternatives such as distance learning or self-study courses are available. Also, departments are not required to justify the need to send multiple employees to the same conference.

As well, the AG does not establish any limit on out-of-state travel or set a reasonable distance from home when traveling locally before incurring costs for lodging and meals. Individual departments exercise significant discretion when expending funds for travel and there is no requirement for a periodic review of those decisions.

The AG does not set any parameters that would control expenditures when an employee is traveling to ensure that expenses are necessary to conduct City business. Employees are not instructed to arrange the most economical travel accommodations nor does it set any limits for costs related to meals, incidentals, or telephone calls. It does not address the propriety of an employee extending business trips for personal reasons or extending days of travel in an effort to reduce airfare costs.

The AG is also silent regarding appropriate accounting of expenses when an employee's spouse and children or other guests accompany the traveler. As currently written, it would not preclude the employee from requesting a larger room, renting a vehicle for the convenience of guests, or incurring other additional expenses that would not be necessary if the employee traveled alone.

The insert below is the purpose and policy outlined in the current Travel Guideline.

Purpose: Facilitate employee travel and vendor payments while meeting Internal Revenue Service (IRS) requirements.

Policies:

- 1. Departments make all travel arrangements. Travel expenses are budgeted in one of two travel accounts. The accounts are "Training-Related Travel and Subsistence" (52230) and "Business Travel and Subsistence" (52245). See "Chart of Accounts" for further description of these accounts.*
- 2. Travel expenses such as hotel accommodations, airfare, and registration should be paid directly to the vendor by Travel Requisition. A per diem of \$25 is allowed for meals and incidental expenses while traveling. This allowance may be advanced by indicating the number of days requested on the Travel Requisition.*
- 3. Check for government rates you may use when making hotel reservations.*
- 4. City rental car credit cards can be used for the rental of vehicles. Supplemental insurance is not necessary since the City's existing insurance coverage is sufficient. Rental car credit cards are available from the Financial Services secretary.*
- 5. A personal vehicle may be used in lieu of air travel. However, only the lesser of the mileage reimbursement or airfare will be paid. Mileage traveled with a personal vehicle may be submitted on the Mileage Report Form or by Travel Requisition.*

As part of our preliminary survey work, we compared AG 210 to other written policies at neighboring municipalities and those used at the State. The table below shows this comparison.

| Criteria | State Of Arizona | City of Chandler | City of Phoenix | City of Tempe | City of Scottsdale |
|---|----------------------------------|----------------------------------|----------------------------------|---|--|
| Defined when eligible for lodging, meals, incidentals, and expenses. | 35 miles from home and duty post | No | No | Outside Metro Phoenix Area | No |
| Per Diem adjusted when meals included in event registration, airfare, or traveling partial days. | Yes | Yes | Yes | Yes | No |
| Limits on phone calls. | Yes | Yes | Yes | Yes | No |
| Authorization of all estimated travel expenses by supervisor prior to trip. | Yes | Yes | Yes | Yes | No-signature authority approval |
| Travel reconciliation required for all trips. | Yes | Yes | Yes | Yes | Yes -but is not enforced |
| Receipts, invoices, meeting agendas, and other documentation required for all expenses upon return. | Yes | Yes | Yes | Yes-except meals less than daily per diem | No-only if in excess of per diem or requesting reimbursement |
| Define criteria for when a rental vehicle may be obtained. | Yes | Yes | Yes | Yes | No |
| Define limits when extending a trip for personal/vacation purposes. | Yes | No-personal expenses not allowed | No-personal expenses not allowed | Yes | No |
| Define limits when traveling with a non-employee. | Yes | Yes | Yes | Yes | No |
| Establish amounts/limits for airport parking or customary tipping practices. | Yes | Yes | Yes | Yes | No |
| Payment allowed with organization procurement cards. | Yes | Yes | Yes | Yes | No |

During the preliminary survey, we also looked at a sample of transactions in order to judge the effectiveness of the current AG in controlling expenditures. Initially, we selected 20 transactions from the *Training* and *Business Conference* accounts and 5 from a Procurement Card vendor list. We had to eliminate 8 expenditures after pulling documentation because they were not travel-related. The inability to develop a true sample of travel-related expenditures will be discussed later.

From the remaining 17 transactions, we found many instances in which, using a reasonable person approach, the expenditure did not appear to be a prudent use of City funds. For example:

1. An expenditure for a four-day training class which was available, according to course material, through an online study course. As a result, the City incurred costs associated with airfare, hotel accommodations, and meals in addition to the registration.

Travel arrangements for this course consisted of leaving on Saturday, although the class did not start until Monday, and returning on Friday, the day following the end of the class. According to the employee, the extended travel arrangements were made because it was more economical. There was no documentation that supported this decision.

2. Six employees from the same department attended a trade show. In addition to the cost of registration, per diem, ancillary social events, and hotel accommodations, the City picked up the cost for two rental vehicles.
 - Five of the six employees only registered for the trade show/technical session portion of the conference, which began on Tuesday. However, two employees arrived in town on Sunday and three arrived Monday morning. As a result, the City incurred cost of meals/per diem, hotel accommodations, and vehicle rental expense that could have been avoided had these employees arranged to arrive Tuesday morning. There was no documentation of the need to arrive prior to the start of the opening session Tuesday afternoon.
 - One employee was added at the last minute resulting in the City incurring an additional \$100 registration late fee, a higher airfare, and a higher hotel rate as rooms at the conference rate were not available. There was no documentation of the business need associated with a last minute addition.
 - Registration fees for five employees included ancillary evening social activities resulting in the City incurring an additional cost of \$145 per employee. In addition, all five employees returned home prior to the Thursday evening awards banquet even though the City had paid the additional cost.

- According to conference materials, there were free shuttles running between the airport and the hotel that five of the six employees stayed at. As well, there were free shuttles running between the hotel and the conference site raising an issue with whether or not it was necessary to incur the cost of the vehicle rental and related fuel. This vehicle was turned in with approximately 150 miles driven.
 - The second vehicle was rented by an employee traveling with a family member. The hotel was one mile from the conference site (two miles from the airport). During the four days the vehicle was rented, approximately 300 miles were driven. In addition, the hotel bill submitted by this employee included expenditures for room service and mini-bar costs. The employee did not adjust either the hotel charge or the per diem on the Travel Reconciliation Form to account for the food charged to the room.
3. Expenditures for lodging and meals at a seminar 30 miles from City Hall. In this situation, the employee and family stayed at the resort during the conference. The City picked up the cost of the room and dinner the night before the start of the conference as well as accommodations and meals for two days of the conference. Documentation indicated that the employee only registered for the opening session (9 a.m. to 12 p.m.) the first day. Sessions for the remaining two days started at 9 a.m. as well.
4. Expenditure for a vehicle rental when an employee took his family along for an extended vacation. During reconciliation, the employee adjusted for personal costs and split the cost of the vehicle rental one half to the City and one half as a personal expense. However, the decision to rent a vehicle increased the cost to the City slightly more than \$100 had the employee traveled alone and used shuttle services that were available. In addition, it was noted that the vehicle rented was a higher rental rate (luxury/minivan) than would have been appropriate had the employee traveled alone and needed to incur the cost of a rental vehicle.
- We also noted that the employee charged the entire cost of the shuttle service from the airport upon return. This charge appears to be higher than what it would have cost for the employee to travel alone to/from the airport.
5. Expenditure for a vehicle rental during a week long training seminar. The employee elected to stay at a hotel 14 miles from the conference site and commute in each day. Registration material indicated that accommodations were available that would have eliminated the need for a rental vehicle.
6. An instance in which the City incurred the cost of a more expensive “double occupancy” room over the less expensive “single occupancy” room listed on the conference materials.

7. Car rental agency receipts for three out of four vehicles submitted as a travel related expenditure included an additional charge for fuel. There was no notation on any of the receipts as to the need to purchase fuel from the rental agency. Two receipts did not indicate either the cost per gallon or the amount purchased so we were unable to determine the rate paid. The third receipt listed a rate of \$3.45 per gallon.

When we followed up with employees regarding their extended stay, several indicated that it was more economical for them to extend their stay for several days (with the City paying for hotel and per diem) rather than pay the higher airfare to fly back right after the event concluded or the next morning. However, there was no documentation submitted with the travel request that supported this justification.

We also found that, due to lack of documentation, we were unable to separate the costs necessary for the employee and the additional costs incurred because of other travelers. As a result, there is limited assurance that the City did not incur expenses related to these guests.

The City's AG 320, *Ethical Standards*, requires that City employees conduct the duties of their position in such a manner as to avoid even the appearance of misconduct or conflict of interest. While there may be valid explanations for each of the situations listed above, an independent review does not result in a conclusion that the employees were managing the expenditure of City funds in a reasonable manner.

The City Should Develop Detailed Procedures to Serve as a Means of Controlling Travel Expenditures

Management policies and procedures supplement the high-level policies established by the City. These detailed procedures are developed to provide the foundation necessary to ensure compliance with the policy. Procedures direct compliance, ensure consistency, and reduce the need for individual interpretation of policy. They consist of steps and instructions designed to set measurable standards for monitoring, required documentation, authorization, justification, and implementing accounting controls. Good procedures are designed to limit the exposure to the employee by setting clear expectations, responsibility, and authority.

By eliminating individual interpretation on what is allowed, procedures help the employee make the right decision and avoid a situation that could be potentially embarrassing for the City or the employee. While there is an expectation that each City employee conduct the duties of their position in such a manner as to avoid even the appearance of misconduct or conflict of interest, employees may not have the necessary training to make those decisions. Without procedural

direction, there may be an unintentional error that results in speculation regarding the employee's intent. This leaves the employee open to criticism regarding the prudent use of public funds.

Sufficient, documented procedures also ensure that IRS requirements are communicated and understood by employees who travel as well as those responsible for processing requests. To have an accountable plan, the City must require substantiation, at the conclusion of the travel, of expenses including records of expenses paid directly to the vendor and expenses charged to the City. As well, per diem allowances must be prorated, both the day of travel and the day returning, using a method that is consistent and reflects reasonable business practices.

We found that the instructions in AG 210 have not been kept current and no longer reflect City practice or IRS requirements. There are inconsistencies between this AG, other City AGs, the Purchasing Card Guide, the Chart of Accounts, and the Travel Requisition Forms.

For example:

- AG 210 requires Travel Requisition Forms to contain proper signature approval as outlined in AG 201. However, AG 201 no longer exists. In December 1996, that AG was replaced with AG 285, which states that the Financial Services General Manager keeps an official signature authority list. When we requested the approved signature list from Financial Services, we were told that there is no list.
- AG 210 does not reflect the use of Procurement Cards for travel payments even though the Purchasing Card Guide allows use of the card for expenses such as hotel reservations, conference registrations, and airfare.
- The language in AG 205, *Business Meeting Expenditures*, and the Chart of Accounts is not consistent. AG 205 instructs employees to use the Business Conference account (52245) when on official business locally. However, AG 210 instructs employees to use either the Training Related Travel and Subsistence account (52230) or the Business Travel and Subsistence account (52245). According to the Chart of Accounts, account 52230 is to be used for training and associated travel expenses while account 52245 is to be used for the cost of food and entertainment purchased while on official City business as well as business conference fees and associated travel expenses.
- AG 210 requires a Travel Reconciliation Form to be submitted within seven working days after returning from a trip, but the current online Form requires submittal within five days of returning from a trip.

- The Purchasing Card Guide prohibits the use of the Procurement Card for meals, miscellaneous expenses, and vehicle rentals, but actual practice is to use the Card for these types of expenditures.

We found that the procedures, as written, are open to a wide range of interpretations creating a potential for expenses that do not meet federal guidelines. For example:

- There is no definition of expenses to describe what the daily per diem allowance is meant to cover. AG 210 states that the per diem allowance is for meals and incidental expenses, but incidental is not defined. According to Webster's New Riverside University Dictionary, the term incidental refers to a minor expense. The AG, however, does not preclude separate charges for items such as tipping for baggage handling or expenses related to laundry or dry cleaning, expenses that are considered to fall under the per diem allowance according to IRS regulations.
- There is no restriction on long distance calls, such as frequency, cost, or location. There is no prohibition against charging the calls to a hotel room and incurring a higher access rate than would be incurred if a calling card is used. As well, there is no prohibition of, or requirement for justification when using dial-in computer services and incurring long distance charges.
- There is no restriction on the amount of meals or incidental expenses that an employee can actually charge while traveling. Expenses for meals are not controlled by criteria such as federal meal guideline amounts. In practice, an employee can pick and choose between per diem and actual expenses. For example, the per diem can be charged on days when the out-of-pocket expenses are below the \$25 minimum and receipts can be submitted on days when expenses exceed the limit. As a result, employees could actually end up with the City paying them more than the cost to travel.
- There is no requirement for the per diem allowance to be prorated if the employee is required to be out of town only a portion of the day or when meals are included in a seminar or conference fee. As a result, it is acceptable practice for an employee to claim the full daily per diem even if all meals are included in the conference/seminar they are attending or if travel arrangements require the employee to be out-of-town only a portion of the day. In all, six employees in our sample were provided at least one meal as part of the registration fee. One employee appeared to have had five out of six meals over two days provided, but still claimed the full per diem for both days. Due to lack of conference agendas or submittal of Travel Reconciliation Forms, we were unable to determine how many others claimed per diem on days when meals were included or travel arrangements were such that the employee was not out of town for the entire day.

We found that procedures do not require sufficient analysis or documentation of travel arrangements to ensure that the most economical or appropriate decisions are made. For example:

- Employees are not required to obtain prior authorization to rent a vehicle while out of town. Criteria have not been developed that would serve to guide a decision to approve or deny any request. Employees are not required to submit justification for the vehicle rental and there is no requirement for documentation that the vehicle rental agency chosen was the most economical.
- There are no requirements that address flight arrangements and the process to be followed when arranging airfare. There is no limit on when flight arrangements can be made, such as a requirement that flights be booked at least 21 days in advance unless the travel is necessitated by an urgent business need. Employees are not required to document alternatives or analysis of any decision to extend travel arrangements to obtain a lower airfare.
- Use of a personal vehicle instead of air travel is allowed. However, there is no requirement for analysis of expenses such as the additional time to drive and consideration of whether or not the employee should charge per diem or time to the City if the arrangements are made for the convenience of the employee.

We found that procedures do not adequately address potential liability issues. For example:

- There is no procedure that would preclude a non-city employee from driving a vehicle rented by an employee when out of town on City business.
- Employees are instructed to waive supplemental insurance coverage when renting a vehicle, but the policy does not discuss potential liability concerns if the vehicle is damaged while under control of the employee when used for non-business related purposes (such as an extended stay or vacation).
- There is no discussion regarding the City's liability should accompanying guests be injured while the employee is driving, whether in a rented vehicle or the employee's personal vehicle.

We found that procedures do not provide sufficient requirements to ensure consistency within the organization or individual departments. For example:

- There is no requirement for an established training program regarding appropriateness of travel, documentation, or responsibilities.
- Departments are not required to develop department specific procedures to address unique needs of that department.

Accounting Controls Over Travel Expenditures Should be Enhanced

Proper accounting for expenses provides the City the ability to determine the actual volume of expenditures. With this information, the City can then make decisions regarding whether or not the volume is sufficient to warrant Citywide contracts, and establish an effective monitoring program. As well, citizens have greater confidence in a process that is designed to provide adequate disclosure.

In order to have good accountability, expenditures need to be consistently recorded in the correct accounts and the recording system needs to be discrete enough to capture the different nature of the expenditures. Responsibility for periodically reviewing expenditures for trends and compliance with policies and procedures also needs to be established.

Under the current process, the City is not able to provide a true accounting to citizens of the costs related to out-of-town travel or, for that matter, how much is spent locally for training, business luncheons, or other events because expenditures are commingled. Other methods of tracking expenditures and identifying trends such as requiring a pre-travel requisition and final reconciliation have not been adequately implemented. As well, Financial Services staff are not assigned responsibility to track trends, identify potential areas of concern, or identify potential cost-saving measures. These issues are discussed in the following sections.

Expenditures for Out-of-Town Travel are not Readily Identifiable

City practice is to budget and record expenditures related to meetings, business conferences, and training, whether locally or out of town, in two accounts “*Training*” or “*Business Conferences*.” During our preliminary review, we found that we could not develop an accurate testing methodology that would allow us to estimate the proportion of travel-related costs reflected in either of these two accounts. A random selection of ten expenditures from the Training and Business Conference accounts produced a sample of only four expenditures that were related to travel, however, those four transactions represented 97 percent of the total dollar value of the sample. In all, we made a selection of twenty expenditures from these two accounts. Of these, seven were found not to be related to travel.

We found that we could not rely on a report of expenditures created from charges recorded in the Training and Business Conferences accounts to reflect the total population of expenditures. When staff use Procurement Cards to pay travel-related expenditures, these costs are recorded in an account titled "*Procurement Card Expense*" unless a Request for Adjustment is processed. Without a requirement for a periodic adjustment, there is no assurance that travel-related expenditures will be properly recorded. Based on a random selection of five expenditures from the Purchasing Card Report, "Lodging" category, the average expenditure charged for hotel accommodations was \$1,053. Of these five expenditures, four were related to out-of-town travel. Failure to properly reflect these expenditures as a cost of training or business conferences could significantly impact the perception of how much the City incurs for these types of expenditures.

All Travel-Related Expenditures are not Captured on a Travel Requisition/ Reconciliation Form to Provide Accountability

City practice promotes many different methods of paying for travel-related expenditures. In addition to using the Procurement Card, as mentioned previously, staff can use Check Requisitions to pay vendors directly. Staff can also request an advance for meals and incidentals to cover estimated out-of-pocket expenses. While AG 210 states that a reconciliation must be turned in within seven days, in practice, submittal of reconciliations is not enforced. As a result, a reconciliation of expenditures may be submitted only when an employee determines it is necessary to repay advanced funds or request reimbursement for excess expenditures. If the expenditure relates to use of a personal vehicle, the expense may simply be reported on a Mileage Reimbursement Form.

The City Travel Expense Guideline recommends using a Travel Requisition Form to pay expenses such as hotel accommodations, airfare, registration, or requests for advances. This Form, which can be submitted in hard copy or online, provides a method of documenting who is traveling, what the purpose is, and where the event will be held. It also allows for approval of the expenses. Use of this Form, however, is not enforced.

Based on our preliminary sample, we found that the practice of allowing travel-related expenditures to be processed without a Travel Requisition Form prevented us from identifying all costs related to a particular trip or a particular employee. Of the seventeen expenditures in our sample, we could only locate ten Travel Requisition Forms. Five of the ten that we found were incomplete, missing information regarding airfare, registration, or accommodations.

When we attempted to verify appropriate signatures on the Travel Requisition Forms, we found that there is no defined level of required approval. Of the ten requisitions we could locate, one was not signed and at least four were signed by

subordinate employees or administrative staff. Some signatures were illegible. The practice of allowing employees such as administrative secretaries to “approve” travel for their supervisor and others in their office does not serve as an effective control because the subordinate employee does not have the authority necessary to question or prohibit a particular expenditure.

When we attempted to trace expenditures, we found instances in which per diem advances and out-of-town conference/training registrations for multiple employees were processed on the same Check Requisition. As well, expenditures for lodging and airfare are made with Procurement Cards assigned to administrative staff, not the employee who is actually traveling. Many times the information submitted either with the original request or the Travel Reconciliation Form was not sufficient, requiring us to request additional information from the employee.

In addition to the lack of documentation, we found that our review was hampered by the fact that reconciliations are not required. Of fifteen per diem advances in our sample, only eight employees submitted corresponding reconciliations. As a result, we could not determine whether or not an employee had properly accounted for expenditures made with City issued Procurement Cards or for meals and incidentals charged to hotel rooms.

The Purchasing Card Guide prohibits the use of Procurement Cards for meals and incidentals while out of town to reduce the potential for an employee to be reimbursed for expenditures paid on the Procurement Card. We found that the unavailability of Travel Reconciliation Forms, as well as the lack of instructions on how to report Procurement Card expenditures, prohibited us from determining whether or not employees properly accounted for meals and incidentals charged to the City.

Failure to require a reconciliation of expenses also precludes City management from identifying staff in need of re-training or pursuing disciplinary action for improper expenses or failure to account for all expenses.

Failure to require reconciliations also jeopardizes the City’s accountable plan. Under an accountable plan, the employee must substantiate any expense related to travel at the conclusion of the travel and document that all excess funds have been returned. This requirement necessitates that the City maintain reconciliations with adequate supporting documentation to prove dates of travel, place, business purpose, and evidence of expenditures should there be an inquiry regarding the treatment of funds advanced or reimbursed to an employee.

No Oversight to Monitor Expenditures, Identify Trends and Opportunities to Centralize Travel Arrangements, or Take Advantage of Discounts

Each department has the ability to choose a travel agent or make arrangements directly for airfare. Financial Services provides vendor specific credit cards for any necessary vehicle rental expense, but departmental staff are free to make other arrangements.

We found that using multiple travel agents and booking arrangements directly with airlines also made it difficult to determine the volume of out-of-town travel. As well, the process of allowing employees to use other vehicle rental agencies and submit those expenditures for reimbursement precludes the ability to determine the true volume of vehicle rentals. Additionally, this practice restricts the City's ability to develop management reports and trends related to travel.

We also found that the flexibility in making arrangements precludes the City from taking advantage of potential discounts that might be available through master accounts with vehicle rental agencies or other discounts that might be available through a single travel agent, such as discounted parking off-site at the airport. Allowing many different employees authority to make arrangements may not result in the most economical travel arrangements because staff may not be aware of available discounts.

RECOMMENDATIONS

We recommend that City Council direct City Management to:

1. Develop a comprehensive travel policy that outlines management expectation that travel-related expenditures be reasonable, prudent, and controlled in an appropriate manner. This policy should:
 - Address who can travel, what circumstances would be generally considered appropriate, allowable expenditures, required documentation, and justification for expenses such as extended stays and rental of vehicles.
 - Require adequate reconciliation of expenses and require employees to repay any additional costs incurred as a result of guests who accompany them.
 - Include a statement that any advance or reimbursement that is not adequately substantiated will be treated as additional compensation.
2. Establish comprehensive management policies and procedures outlining each employee's responsibility for following City policy regarding travel-related expenses. The procedures, at a minimum, should:
 - A. Define expectations for those who travel including:
 - An appropriate distance that must be met to justify overnight lodging and payment of expenses related to meals.
 - Criteria for lodging expenses such as requiring use of accommodations that offer government rates.
 - When it is appropriate to incur other expenses such as dry cleaning/laundry and long distance telephone calls and limits for those expenses.
 - Clear expectations that contract employees and board and commission members follow established City procedures when traveling on City business.
 - Who owns frequent flyer miles and preclude decisions based on availability of frequent flier miles alone.
 - Requirements that decisions be based on the best value for the City or what is most appropriate under the situation.
 - What the per diem allowance covers.
 - Restrictions on the ability to switch between per diem allowance and actual receipts while on the same trip.

- Discussing when it is appropriate for a full-day per diem and situations in which an adjustment should be made.
 - Use of laptop computers, including responsibility for safeguarding both the computer and any data.
 - Requiring justification for long distance charges incurred to access Internet Service Providers or the City Network.
 - Procedures to specifically address expenditures incurred when a non-employee travels with a City employee.
 - Limits for airport parking to encourage use of park-and-ride facilities that are less expensive.
 - Customary tipping practices and appropriate limits.
 - Employee responsibility to return rental vehicles with a full tank of gas to avoid a higher cost for fuel.
 - Procedures when an employee elects to extend travel arrangements including determining the appropriate break between City and personal costs such as time charged to the City, per diem, and fuel costs.
- B. Require adequate preliminary planning to estimate all necessary expenses prior to the actual trip and pre-authorization of any travel-related expenditure by the employee's supervisor. These preliminary costs should be captured on a Travel Requisition Form and should include:
- Registration costs whether requested for payment directly to the vendor or paid with a Procurement Card.
 - Adequate documentation of registration forms and agendas.
 - Lodging accommodations whether requested for payment directly to the vendor or guaranteed with a Procurement Card.
 - Justification for any vehicle rental proposed as part of the travel-related expenses.
 - Any per diem advance for meals and other expenses.
- C. Require Departments to maintain documentation with their copy of the Travel Requisition Form that:
- Flight arrangements were made in the most prudent manner to reduce the cost to the City.
 - Lodging accommodations were made in the most prudent manner to reduce the cost to the City.

- D. Require submission of a Travel Reconciliation Form that can be matched to the Travel Requisition Form for a final accounting of all expenses regardless of whether or not additional funds are owed to the employee or City. The Travel Reconciliation Form should include:
- An itemized hotel bill indicating all charges.
 - Itemized receipts for any meals charged to the hotel room, Procurement Card, or submitted for reimbursement. If more than one person's meal is included, the names of any other individuals should be listed on the receipt.
 - Name and business purpose for any long distance call made and charged to the room, a City Procurement Card, or requested for reimbursement.
 - Itemized receipt for any vehicle rental.
 - Receipt from City Cashier for return of any excess funds.
3. Establish clearly defined, separate control accounts to ensure that City travel expenditures are tracked separately from expenditures for local business meals, conferences, and training. Consideration should also be given to establishing subsidiary accounts for lodging, vehicle rental, other transportation, airfare, registration, and meals.
 4. Require departments to prepare a Request for Adjustment, at least quarterly, to reclassify expenditures made with Procurement Cards to properly reflect the category of expenditures.
 5. Require periodic reviews of Travel Reconciliation Forms by Financial Services staff to ensure an appropriate level of monitoring.
 6. Require Financial Services to develop a specialized training on travel-related expenses for departmental administrative support staff, employees who will be traveling, and budget liaisons.
 7. Consider requiring departments to develop department specific procedures to address unique travel requirements of that department.
 8. Consider entering into a Citywide contract with a travel agency for travel arrangements.
 9. Consider establishing a master account with a vehicle rental agency to ensure that the City receives a discounted rate when it is necessary for employees to rent a vehicle.

10. Require Risk Management to review liability issues that arise from:

- Allowing guests to accompany an employee when the City pays the cost of the rental vehicle.
- Allowing use of a personal vehicle to transport other City employees or guests.
- Use of a City rented vehicle by a non-employee while accompanying an employee on out-of-town travel.

CHAPTER TWO

SCOPE AND METHODOLOGY

During the preliminary survey, the following work was undertaken:

- 1) Review of travel expenditure policies and procedures to determine if they are sufficient to provide adequate controls.
- 2) Review of supporting documentation to determine if travel expenditures are supported with adequate documentation.
- 3) Review of travel expenditures and supporting documentation for compliance with City Guidelines.

We interviewed staff and reviewed the AGs applicable to travel to gain an understanding of the travel expenditures. In addition, we analyzed travel transactions posted to the two travel accounts, 52230 and 52245, and transactions charged on City Procurement Cards.

We also reviewed a sample of transactions from calendar year 1999 to evaluate documentation and the reliance on existing controls. The transactions selected were not intended to be statistically representative of the population and no assertions were made about the population based on the samples.

Sample #1: Ten randomly selected transactions from the population in the two travel accounts. Six of the transactions produced in this sample were not travel expenses.

Sample #2: Five randomly selected transactions from a population which attempted to isolate travel expenditures from non-travel related transactions by deleting amounts that were not evenly divisible by \$25, the daily per diem amount.

Sample #3: Five judgmentally selected transactions from Procurement Card lodging records.

Sample #4: Five judgmentally selected transactions that appeared to be in conflict with the City Travel AG.

The chart below summarizes expenditures selected as a result of the various sample selections.

| Sample# | Amount | Type of Expense | Location | Reason for Travel |
|---------|-------------|-----------------------------------|---------------------|--------------------------|
| 1 | \$ 277.11 | Vehicle Rental | San Francisco, CA | Training |
| 2 | \$ 185.00 | Conference Registration | Four Corners, AZ | Conference |
| 3 | \$ -175.00 | Certification Program/ Seminar | Mesa, AZ | Not Travel |
| 4 | \$ 100.00 | Per Diem | Tampa, FL | Conference |
| 5 | \$ 20.17 | Local Business Breakfast | Scottsdale, AZ | Not Travel |
| 6 | \$ 15.00 | Local Business Luncheon | Phoenix, AZ | Not Travel |
| 7 | \$ 50.00 | Local Business Luncheon | Phoenix, AZ | Not Travel |
| 8 | \$ 1,050.00 | Tuition Registration | Washington, DC | Training & Certification |
| 9 | \$ 12.00 | Local Business Luncheon | Phoenix, AZ | Not Travel |
| 10 | \$ 125.00 | Local Training Seminar | Phoenix, AZ | Not Travel |
| 11 | \$ 1,058.66 | Hotel | Chicago, IL | Training Seminar |
| 12 | \$ 362.61 | Hotel | Scottsdale, AZ | Not Travel |
| 13 | \$ 684.39 | Hotel | Reno, NV | Conference/Training |
| 14 | \$ 1,017.65 | Hotel | Los Angeles, CA | Conference |
| 15 | \$ 1,451.46 | Hotel | New York, NY | Conference |
| 16 | \$ 75.00 | Per Diem | Denver, CO | Conference |
| 17 | \$ 175.00 | Per Diem | Washington, DC | Committee Meeting |
| 18 | \$ 100.00 | Per Diem | Tampa, FL | Speaker at Conference |
| 19 | \$ 75.00 | Per Diem | Tucson, AZ | Training Conference |
| 20 | \$ 25.00 | Per Diem | San Diego, CA | Training Conference |
| 21 | \$ 150.00 | Parking Validation Tickets | Phoenix, AZ | Not Travel |
| 22 | \$ 75.00 | Per Diem | Annapolis, MD | Conference |
| 23 | \$ 75.00 | Per Diem | Annapolis, MD | Conference |
| 24 | \$ 75.00 | Per Diem | Litchfield Park, AZ | Conference |
| 25 | \$ 75.00 | Per Diem | Litchfield Park, AZ | Conference |

Test #1: Review of travel expenditure policies and procedures.

Objective: To determine if policies and procedures are sufficient to provide adequate controls.

Method: In order to determine if travel policies and procedures provide adequate controls, we reviewed AG 210, and requested a copy of the City's Travel Policies and Procedures. We compared AG 210 to the travel policies and procedures of several nearby cities, the state, and the federal government.

Criteria: The City should have well defined policies and procedures in place to set consistent standards for employees. This should include a definition of travel, per diem, acceptable expenses, limitations, required documentation, and a requirement that expenses be reconciled upon return from a trip.

Results: Guidance regarding travel expenditures is minimal. No established policies and procedures have been documented other than what is in the Travel AG and on the Travel Requisition/Reconciliation Form. The AG does not define travel, per diem, acceptable expenses, limitations, or required documentation. Although it states that a Travel Reconciliation Form be completed upon return from a trip, in practice, the Form is not submitted unless additional amounts are due to the employee in excess of what was advanced or funds are due to the City.

In addition, the AG has not been updated to reflect the use of City Procurement Cards for travel expenses and references an AG that does not exist for signature authority. Consequently, we were unable to determine who can authorize travel expenditures. There are several versions of the Travel Requisition/Reconciliation Forms available. The new online Form does not give instructions regarding what constitutes acceptable backup documentation. We also noted that the new Form, the Travel AG, and the old Form require that the reconciliation be completed within a different time frame upon returning from a trip.

Test #2: Review of supporting documentation.

Objective: To determine if travel expenditures are supported with adequate documentation.

Method: Preliminary testing was designed to determine the most effective method of conducting fieldwork. Our population consisted of all travel transactions posted to the two travel accounts, 52230 (*Training Related Travel and Subsistence*) and 52245 (*Business Travel and Subsistence*) and selected transactions posted to the City Procurement Card account. We selected four different samples and researched all supporting documentation available for each transaction to determine if documentation was adequate to support the expenditures. Twenty-five transactions were selected. These samples were not intended to be statistically representative of the population and no assertions were made about the population based on the samples. The samples were used to assess the reliability and performance of the travel expenditure controls.

Preliminary Random Sample from Travel Accounts - 10 transactions

We selected a preliminary random sample of ten transactions from the population in the two travel accounts. We assigned each transaction in the population a number. The sample was then chosen using Excel's Random Selection tool. Ten numbers were requested and generated. We then found the transaction data corresponding to the number selected. We obtained supporting documentation for each of the selected transactions and attempted to locate the corresponding Travel Reconciliation Form, which should account for all expenditures associated with the trip. As the travel accounts also included in-town training, seminars, and business lunches, there was no way to distinguish travel expenditures from other expenditures. Six of the transactions produced in this sample were not travel expenses.

Random Sample from Per Diem List - 5 transactions

As our initial sample resulted in mostly non-travel transactions, we attempted to isolate travel expenditures from non-travel related transactions. We prepared an analysis of the travel accounts. Transactions listed in the travel accounts include travel per diem advances, lodging, transportation, registration, as well as non-travel related items. Because per diem is only issued when an employee is traveling on City business, we could infer that all per diem transactions represented travel. We sorted the data in the accounts by transaction amount and deleted amounts that were not evenly divisible by \$25, the daily per diem amount. Of the remainder, the transactions that obviously did not represent a per diem travel advance (issued to a hotel, professional group, or payee other than a City employee) were also deleted. Six hundred and four transactions remained. Using this reduced population, we selected five transactions using Excel's Random selection tool. We attempted to locate both the Travel Requisition Form and Travel Reconciliation Form with supporting documentation for the trips associated with each of the five transactions.

Judgmental Sample from Procurement Card Hotel Charges List – 5 transactions

In order to include travel charged to City Procurement Cards that may not be posted to the travel accounts, we decided to select a judgmental sample of five transactions from Procurement Card records.

We contacted the Purchasing Department to obtain a list of travel transactions charged on the City Procurement Cards. Purchasing was able to provide a report by the Merchant Category Codes (MCC) for hotels, airfare, and vehicle rentals. The lists include the

cardholder name, vendor name, amount of charge, and the dates. In deciding how to choose the sample, we considered how often the person charging airfare for a trip might not be the traveler, but the department administrative secretary. Because of this, we would not be able to tie the airfare to a specific traveler. In order to find a Travel Requisition/Reconciliation Form for a trip, the traveler's name and dates of travel are essential. We also considered that all travelers do not rent vehicles. This list was relatively short and did not include many travelers using a Procurement Card.

Since staying overnight in a hotel would be considered travel and appears to be more inclusive; we used the hotel list to select a sample of Procurement Card travel expenditures. The hotel report provided by Purchasing had sixteen pages. Dividing the sixteen pages by the desired number in the sample, we chose a transaction from every third page of the report starting the count with page one. We attempted to locate both the Travel Requisition Form and Travel Reconciliation Form with supporting documentation for the trips associated with each of the five transactions.

Judgmental Sample from Travel Accounts - 5 transactions

While analyzing data in the travel accounts, five transactions were judgmentally identified that may be in conflict with the City AG for travel. They represented a possible duplicate payment, two per diem advances for local travel, and one possibly misclassified transaction. Further review of these items was appropriate and they became the judgmental sample. We attempted to locate both the Travel Requisition Form and Travel Reconciliation Form with supporting documentation for the trips associated with each of the five transactions.

Criteria: All travel expenditures paid in advance and per diem requests should be made on a Travel Requisition Form supported by documentation such as invoices, receipts, brochures, or meeting agendas. Upon return from a trip, a Travel Reconciliation Form should be completed with all original invoices and/or receipts attached to document all expenses incurred during the trip and the method of payment used.

Results: All of the transactions selected had some type of documentation in the form of invoices, receipts, or brochures to support the transactions. However, documentation was often inadequate to show dates, costs, and other information. In addition, the documents pulled for the sample transactions did not provide enough information by themselves to find the corresponding Travel Requisition Forms and/or Travel Reconciliation Forms. Additional investigation was required to

locate the associated Travel Requisition/Reconciliation Forms and pull together all expenses for a trip. We were not able to locate Travel Reconciliation Forms for all of the transactions.

Many transactions were paid with Check Requisitions or Procurement Cards and were not documented on a Travel Requisition/Reconciliation Form. Documents that showed per diems advanced, but no accompanying charges for lodging, transportation, or registration fees seemed incomplete.

Preliminary Random Sample from Travel Accounts - 10 transactions

All of the sample transactions had documentation in the form of invoices, receipts, or brochures. However, documentation was not adequate in all cases, and six of the transactions were not travel related. Of the four travel transactions, two had requests for multiple individuals listed on the request resulting in eleven trips for our sample of four. We attempted to locate the Travel Reconciliation Forms for all the individuals listed in these transactions.

Of the eleven transactions, only one individual completed a Travel Requisition Form before the trip. The remaining ten requested payment on Check Requisitions, paid with a City Procurement Card, or did not pay expenses in advance. We were unable to locate eight of the Travel Reconciliation Forms.

For the three Travel Reconciliation Forms that we were able to locate, one was missing a \$32 receipt associated with a charge slip and information on how airfare was paid. Another one was missing information on how the registration was paid and included a charge for vehicle rental that may not have been necessary since shuttle service was available at considerable savings.

Random Sample from Per Diem List - 5 transactions

Documentation was generally included with the Travel Reconciliation Form, but not adequate in all cases. The Travel Requisition/Reconciliation Forms did not include all expenses associated with a trip. Three individuals did not complete Travel Reconciliation Forms upon returning. In addition, two individuals requested per diem on Check Requisitions instead of Travel Requisition Forms; one of those individuals did not turn in a Travel Reconciliation Form. One traveler was missing a receipt for \$10 and the hotel receipt was not legible so we could not determine if the amount was correct.

Judgmental Sample from Procurement Card Hotel List - 5 transactions

Of the five sample transactions, three Travel Requisition/Reconciliation Forms could be tracked from the hotel Procurement Card transactions. Of the two that could not be traced to Travel Requisition/Reconciliation Forms, only a per diem Check Requisition was found for one, and no corresponding trip could be linked to the other.

Of the three Travel Reconciliation Forms, two had all the appropriate receipts or invoices attached. The Check Requisition transaction also had acceptable documentation attached. One of the Travel Reconciliation Forms was missing \$56 in meal receipts compared to what was claimed.

Judgmental Sample from Travel Accounts - 5 transactions

Some form of documentation was attached to payment requests for all five transactions. One transaction for parking ticket books was erroneously posted to the travel accounts. Of the remaining four transactions, one Travel Reconciliation Form was incomplete and one individual that appeared to have a duplicate payment for per diem only returned a Travel Reconciliation Form for one of the per diem advances.

Test #3: Examination of travel expenditures and supporting receipts/invoices for compliance.

Objective: To determine if travel expenditures complied with City Guidelines for each of the four samples.

Method: We used the same four samples examined in the test of supporting documentation (Test #2). We attempted to locate and review Travel Requisition/Reconciliation Forms and all supporting documentation associated with the corresponding trip to determine compliance with AG 210.

Criteria: All travel expenditures for a trip should be reconciled upon completion of the trip. The Travel Reconciliation Form should include supporting documentation. Expenses should be appropriate and comply with the following criteria:

1. Travel expenses are posted to the travel accounts.
2. Hotel, airfare, and registration are paid to the vendor via Travel Requisition Forms.

3. A vendor credit card is used for vehicle rental and no additional insurance is purchased.
4. If the traveler is driving, only the lessor of mileage or airfare is reimbursed.
5. Documentation includes the name of the person traveling.
6. The purpose of the travel is listed.
7. The date and location of the trip is listed.
8. The Travel Reconciliation Form contains an authorizing signature.
9. Amounts claimed in excess of the \$25 per diem should contain detailed documentation.
10. A Travel Reconciliation Form should be completed within seven days of returning to work.

Results:

Preliminary Random Sample from Travel Accounts - 10 transactions

For the four travel transactions:

- All were charged to the correct accounts.
- Vendors were not paid directly for airfare (1), hotel (3), and registration (2).
- Vendor cards were used for one vehicle rental, and a Procurement Card was used for another vehicle rental. No additional insurance was purchased in either case.
- Name, location, dates, and purpose were included, however, the information was incomplete.
- Three Travel Requisitions were authorized by someone other than the traveler's supervisor.
- Travel Reconciliation Forms were sometimes completed incorrectly.
- No missing receipts.
- No Travel Reconciliation Form completed for three of the individuals in the sample transactions, two were not completed within seven days, and one was completed timely.

Random Sample from Per Diem List - 5 transactions

- All were charged to the correct accounts.
- A Procurement Card was used for one registration and one airfare rather than paying vendors directly.
- There was no indication of vehicle rental for any of the five transactions.
- The name, location, dates, and purpose of travel were included.
- One transaction was missing an authorized signature.

- Travel Reconciliation Forms were sometimes completed incorrectly.
- One transaction was missing a \$10 receipt and amounts on a hotel receipt were not legible. Meals and movies were charged to the room, but we were unable to tell if these items were included in per diem.
- Only one Travel Reconciliation Form was submitted within seven days of returning from the trip.

Judgmental Sample from Procurement Card Hotel List - 5 transactions

For the three Travel Requisition/Reconciliation Forms found:


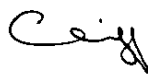
- All were charged to the correct accounts.
- A Procurement Card was used to pay for all three of the hotel rooms. One of the rooms was originally paid to the vendor, however, when an additional person was added, a Procurement Card was used for an additional hotel room. For another transaction, the registration was paid directly to the vendor, but the hotel was paid with a Procurement Card.
- There was only one trip when a rental vehicle was used and a City rental vehicle credit card was utilized. No supplemental vehicle rental insurance was purchased.
- Two Forms were missing the location of the conferences.
- The name and dates were included in all of the documentation.
- One individual did not return all the required receipts.
- Two were not submitted within seven days.

Judgmental Sample from Travel Accounts - 5 transactions

- A book of pre-paid parking vouchers at a Phoenix parking facility for use by City employees while conducting business downtown was erroneously posted to the travel account.
- Payments (i.e., hotel, airfare, registration) were made directly to vendors as recommended by the AG.
- There were no rental vehicles in this sample.
- The subject, date, and location for travel were adequately disclosed by the documentation.
- Receipt documentation was included with the Travel Reconciliation Form.
- One per-diem requested appeared to be a duplicate payment.
- Reconciliation Forms were not submitted within seven days of returning from the trip.
- Two of the transactions were for City employees to attend a conference in Litchfield Park. One individual stayed at the hotel during the conference. The other individual took a per diem advance for mileage and returned unused amounts.

**APPENDIX A
MANAGEMENT RESPONSE**

MEMORANDUM

TO: Cheryl Barcala, City Auditor
THRU: Jim Jenkins, Financial Services 
FROM: Craig Clifford, Accounting & Budget Director 
DATE: June 30, 2000
SUBJECT: Management Response – Travel Expenditure Audit #9950

We have read your audit report and concur with your overall finding – that the City should strengthen controls over travel. A new travel requisition and expense reconciliation form was developed recently and more comprehensive policies and procedures have also been drafted to address our mutual concerns. In addition, budgetary policy has also been amended to address the issue of segregating travel expenditures from other non-travel related “business training and conference” expenditures. This change will allow for better examination of travel expenditures and possible procurement opportunities with travel agents, rental car companies, etc.

Please note our concurrence with the Audit Action Plan. A revised Administrative Guideline related to travel has been drafted. After review and approval by City Management, Accounting and Budget staff are ready and able to implement these new policies and procedures.

